

CAPITAL REQUIREMENTS

Equipment Facilities Advanced Planning

The 2005-07 Consensus Budget request of the North Carolina Community College System (NCCCS) is a reflection of several things. It is a mirror reflection of both an internal System Wide Strategic Planning Process, and an external review of public higher education's educational and programs needs as they relate to economic development. It reflects the core mission and operations of the System: education and training, including the importance of faculty, staff and System Office. And, the request reflects the target population whom the System exists to serve - both students and the state's workforce.

Community Colleges have always had at their center access to skills training through the "open door" so often referred to by Dr. Dallas Herring. That door is closing to many students because of a lack of facilities. While "open admission" to all students continues to be our policy, when course sections are full, access is effectively denied to those who can not get seats in those space-limited sections.

There is an important missing element in meeting our commitment to access: the tools required for learning – equipment - and the facilities in which that learning is conducted. No campus of the NCCCS can accomplish the purpose of education and training a work force in an economy as dynamic as North Carolina's without facilities equipped with the most modern instructional technology as can be afforded. Both an internal strategic planning process¹ and an external review process² recognize the importance of equipment and facilities, and the processes of identifying needs for both equipment and facilities was revamped for 2007-09. No longer an overwhelming process that results in staggering estimates for both capital requirements, the equipment estimates have been pared to reflect the current equipment investment; and, the facility requirements have been pared to reflect three renovation and repair projects, one general construction project, and one project per campus that addresses statewide labor market needs, and the advance planning costs thereof. We also captured the costs of equipping such facilities.

¹ North Carolina Community College System: "Strategic Planning Process - 2007-09.

² The Pappas Consulting Group. "Staying a Step Ahead: Higher Education Transforming North Carolina's Economy." July 21, 2006.

Equipment

If there is one item that appears perpetually in every NCCCS budget request it is equipment. Training the work force of the future requires state-of-the-art equipment. For the last several years, both the Governor and General Assembly have responded favorably to the requests put forth by the NCCCS. In FY 2005-06, \$10,000,000 in recurring funds was appropriated for equipment, bringing the annual amount of recurring dollars to \$31.3 million the largest recurring amount in the System's history. In FY 2006-07, an additional \$10 million in non-recurring funds was appropriated, again increasing the total amount to \$41.3 million. The non-recurring nature of the last appropriation is cause for concern going forward.

Currently, the appropriation per student for equipment is \$214.06. While this is the most funding per student since 2002-03, it does not approach the record funding levels of 1998-99 through 2001-02. During the peak funding period, the NCCCS received special funding from House Bill 275 funds in the cumulative amount of \$62.1 million, and a one-time appropriation of \$21 million in 1998-99.

The current amount of state funded equipment in use in the NCCCS is \$305.3 million. The majority of this equipment (56 percent) is **computer technology** (\$171.3 m) – a critical tool used in the classroom, shops, tutorial labs and the basic skills environment. The next largest investment of equipment funds is in the skilled **trades area** (\$60.9 m). As noted earlier in the request for funding for Technical and Vocational Educational programs, the high cost of equipment in this area makes some programs cost prohibitive, and many colleges have no choice but to terminate the program. Programs of instruction in general education (\$34.7 m) and allied health (\$26.8 m) represent the remaining principal investment in state-funded equipment currently in use in the NCCCS.

In April 2002, consistent with Governmental Accounting Standards Board Statement 34 and Related Pronouncements, the Division of Business and Finance issued an "Asset Policy with Useful Lives and Capitalization Limits" as guidance to colleges on how to handle equipment depreciation. The policy provided, among other things, "useful life" information for data processing, educational, and general equipment, and for vehicles (used in emergency training). In applying this policy to the current amount of state-funded equipment in use in the NCCCS, the amount of equipment needs to be funded each year, just to keep current equipment in classrooms, shops and labs, is \$47,412,243.

Therefore, because the \$10 million appropriation for 2006-07 is non-recurring, leaving \$31,319,732 in recurring funds, and the total annual requirement for equipment replacement is \$47,412,243, the request for recurring funds for equipment for each year of the biennium is \$16,092,511.

Facilities

In November 2000, voters in North Carolina approved the sale of general obligation bonds in the amount of \$3.1 billion to renovate and construct educational facilities for both the NCCCS and the University System. Of the \$3.1 billion, the NCCCS received \$600 million. The flow of funds to the NCCCS began in the spring of 2001.

Each quarter over the past six years, the NCCCS has reported the activity and accomplishments of the community college bond program to the “Higher Education Bond Oversight Committee.” In the latest report³, the System Office reported the following:

- As of February 16, 2007 \$478 million of new construction funds and \$97.1 million of renovation and repair funds have been approved for programming by the State Board of Community Colleges.
- \$103.3 million of non-state funds have been expended on bond projects.
- 114 new buildings have been constructed.
- 245 projects have been completed.
- 73 projects are under construction.
- 32 projects are under design.
- 16 projects announced for designer services
- \$133.7 million of projects are scheduled for completion in the 2007-09 biennium.

There are several “lessons learned” from the community college Higher Education Bond Program since it began in FY 2000-01. They include:

1. By virtue of the NCCCS not having any “Advance Planning” funds, and colleges having poor or old “Master Facilities Plans”, the program was slow to start, and an extremely good construction market was missed. In addition, there was no provision in the bond funds for “inflationary increases.”
CONSEQUENCE: The cost of construction has increased from ~\$110/sq. ft. to ~\$240/sq. ft., thereby reducing the scope of projects.
2. That enrollment projections made in FY 1999-2000, which drive the projected space requirements for all community colleges, did not anticipate the dramatic economic downturn, in which enrollments grew by approximately 50,000 FTE.
CONSEQUENCE: Enrollment growth pressures have created huge space requirements for 2007-09.
3. The renovation and build-out of facilities came at a time when equipment funding peaked and began to decline, thereby reducing the availability to adequately equip new buildings.
CONSEQUENCE: Colleges have been forced to hold available equipment dollars for equipment replacement in order to equip new buildings.

The lessons learned from the 2000 Higher Education Bonds precipitated a re-assessment of the master facility planning, repair and renovation, and new construction needs for the 2007-09 biennium. Though the Higher Education Bonds is adding much needed space, it will not address the unprecedented enrollment growth that has occurred since 1999-2000 (50,000 FTE). The re-assessment was designed to gauge both the advanced planning costs for the renovation and construction, and the cost of equipping facilities.

³ Division of Business and Finance. “2000 Bond Funds Report to the Higher Education Bond Oversight Committee.” February 19, 2007.

A. Master Facility Plans:

Fifty-six of the 58 community colleges have master facility plans. Of the 56 colleges that have master plans, 29 report a need to update them. The estimated cost of developing master plans at two colleges, and at updating the plans at 29 others, is **\$1,214,600**

B. Repair and Renovation:

The colleges were asked to identify their top three (3) projects in the area of renovation and repair. The four project categories included life safety code, OSHA or ADA compliance; classrooms, shops or labs; student services and library space; and infrastructure needs. For the 172 projects identified, the total estimated cost was **\$305,030,172**.

C. New Construction:

The new construction needs were broken into two groups: current space need; and, constructing new facilities for emerging fields.

1. Current Need – Colleges were directed to identify their top new construction project for which they needed space immediately. Of the 58 projects identified, the total estimated cost is **\$479,206,819**.
2. Emerging Fields - As identified by the strategic planning process and the external study, there are emerging fields for which academic programs will need to be either initiated or expanded. The emerging fields include allied health and technology. The expansion of existing fields includes teaching and allied health. The other categories included are joint use facilities with alternative high school programs and land acquisition. Colleges were directed to identify their top two projects in emerging fields. Of the 58 projects identified, the total estimated cost was **\$406,635,148**.

Advanced Planning Funds

As noted, one of the most important lessons learned from the 2000 Higher Education Bonds program was not having advance planning funds for facility design resulted in a missed opportunity for construction in a more favorable building market than we have today. Therefore, colleges were asked to determine their advanced planning costs for categories A., B., and C. above. The estimated costs of master facility plans and advanced planning for each category is as follows:

A. Master Facility Plans:	\$ 1,214,600
B. Renovation and Repair:	\$15,381,163
C. New Construction - Current Need:	\$22,675,729
New Construction – Emerging Fields:	<u>\$19,286,559</u>
Total:	\$58,558,051

Equipping New Facilities

Taken from the other lesson learned, colleges were asked to estimate the cost of equipping new facilities, once they are constructed. Colleges reported an estimated cost of **\$108,362,678**.

In summary, the requirements to meet all the capital requirements of the NCCCS, including recurring funds for equipment (\$16,092,511) and non-recurring funds for facilities (\$1,357,793,003), is approximately \$1.37 billion.

Budget Requirements for 2007-09

1. Equipment:

Funds are needed to replace \$10.0 million in non-recurring funds appropriated by the 2006 Session of the General Assembly. Currently, the appropriation per student for equipment is \$214.06. The NCCCS currently receives \$31,319,732 in recurring funds. The total annual requirement for equipment replacement is \$47,412,243. *Therefore, the request for recurring funds for equipment for each year of the biennium is \$16,092,511.*

2. Facilities:

The lessons learned from the 2000 Higher Education Bonds precipitated a re-assessment of the master facility planning, repair and renovation, and new construction needs for the 2007-09 biennium. From the re-assessment, it has been determined that the NCCCS needs:

Repair & Renovation Funds	= \$305,030,172
New Construction Funds:	
Current Need	= \$479,206,819
Emerging Fields	= \$406,635,148
Equipping New Facilities	= \$108,362,678

3. Master Facilities & Advanced Planning:

The estimated costs of master facilities plans, and advanced planning for the repair and renovation, and for constructing new facilities is \$58,558,051. *Therefore, funds are requested for this purpose.*

It is further recommended that except for Master Planning, Equipment, and Equipping requirements, which are statutorily a state function, that the Renovation and Repair and New Construction requirements be matched, again consistent with statute.